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AZ CORP COMMISSION
DOCKET CONTROL

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January 29, 2013

Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

RE: Arizona Public Service Company Report on Carbon Tracking Mechanism
Docket No. E-01345A-08-0172

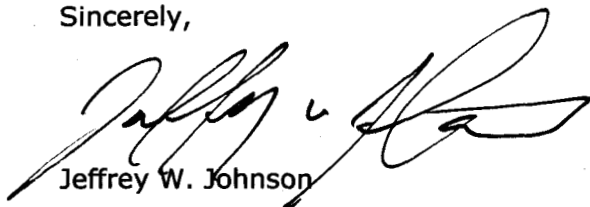
Pursuant to Decision No. 71448 dated December 30, 2009:

Arizona Public Service Company shall establish a carbon credit tracking mechanism designed to track and set aside all carbon credits generated from its non-carbon emitting generation fleet, including all renewable energy and energy efficiency projects identified in this Settlement Agreement. The Company shall file a report on the tracking mechanism, and any potential for trading of the credits contained within it, with Docket Control as a compliance item in this docket, annually, on or before January 31 of each year, beginning in 2011.

Attached please find Arizona Public Service Company's report on the carbon tracking mechanism.

If you have any questions regarding this information, please contact me at (602)250-2661.

Sincerely,

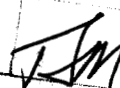


Jeffrey W. Johnson

JJ/cd
Attachments

cc: Terri Ford
Brian Bozzo

Arizona Corporation Commission
DOCKETED
JAN 29 2013

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Arizona Public Service Company Carbon Reduction Report for 2012

In Arizona Corporation Commission ("Commission" or "ACC") Decision No. 71448,¹ the Commission directed Arizona Public Service Company ("APS") to establish a carbon credit tracking mechanism:

IT IS FURTHER ORDERED that Arizona Public Service Company shall establish a carbon credit tracking mechanism designed to track and set aside all carbon credits generated from its non-carbon emitting generation fleet, including all renewable energy and energy efficiency projects identified in this Settlement Agreement. The Company shall file a report on the tracking mechanism, and any potential for trading of the credits contained within it, with Docket Control as a compliance item in this docket, annually, on or before January 31 of each year, beginning in 2011.²

Background

While it appeared likely at the time of the Decision³ that some form of federal carbon legislation (see discussion below), particularly a cap and trade type program, would be passed, the proposed federal carbon legislation was not enacted.

In light of the possibility that a national carbon pricing policy could be approved in the near future - either through a federal cap and trade or carbon tax program - we believe that the company should be closely tracking and setting aside for the benefit of future ratepayers all credits it is accruing associated with ratepayer-financed non-carbon generation.⁴

In 2012 there were no federal legislative activities related to the establishment of a carbon cap and trade program or a carbon tax, and the passage of federal legislation establishing carbon cap and trade or carbon tax programs may be unlikely over the next several years. In addition, U.S. Environmental Protection Agency climate change regulatory efforts do not propose cap and trade type programs that would establish a national carbon credit program.⁵

Carbon Reduction - Energy Efficiency and Renewables

With the lack of a legislative program or national carbon pricing policy, there are no mechanisms for establishing carbon credits and therefore, establishing a tracking mechanism is premature at this time because a carbon value and market has not been established.

In lieu of a carbon credit tracking mechanism, APS will, for now, track annual carbon dioxide emissions reductions and avoidances resulting from APS's renewable energy and energy

¹ Docket No. E-01345A-08-0172

² Decision No. 71448, p. 61 at 26

³ December 30, 2009

⁴ Decision No. 71448, p. 58 at 28

⁵ Mandatory Greenhouse Gas Reporting, 40 C.F.R. § 98

efficiency projects. This will help APS in its ongoing efforts to evaluate and prepare for any future legislative proposals for a national carbon program. If a national program is established that includes carbon credits, APS will then develop a carbon credit tracking mechanism for its renewable energy and energy efficiency programs consistent with that legislation.

For informational purposes, APS has prepared the attached table that shows the carbon dioxide emission reduction or avoidance tracking mechanism for its 2012 energy efficiency and renewable energy programs.

Arizona Public Service Company
Carbon Dioxide (CO2) Reductions/Avoidance from Energy Efficiency and Renewable
Generation Programs for 2012

<u>APS PROGRAM</u>	<u>MWH</u>	<u>METRIC TONS CO2 REDUCTION³</u>
<i>ENERGY EFFICIENCY¹</i>		
Consumer Products	127,900	52,155
Existing Homes	28,200	11,500
New Construction	9,000	3,670
Appliance Recycling	14,800	6,035
Low Income	1,700	693
Conservation Behavior	31,100	12,682
Multi-Family	5,400	2,202
Shade Trees	700	285
Large Existing Facilities	151,700	61,860
New Construction	27,500	11,214
Small Business	32,300	13,171
Schools	32,800	13,375
Energy Information Systems	700	285
TOTAL ANNUAL ENERGY EFFICIENCY	463,800	189,127
<i>RENEWABLE GENERATION²</i>		
Ajo Solar	10,300	4,200
Aragonne Mesa Wind	278,300	113,485
High Lonesome Wind	286,700	116,910
Perrin Ranch Wind	198,900	81,107
CE Turbo Geothermal	66,000	26,913
Glendale Landfill	16,500	6,728
NW Regional Landfill	8,200	3,345
Snowflake White Mountain Power	112,000	45,671
Prescott Solar	27,400	11,173
Tonopah Solar	700	286
Bagdad Solar	36,000	14,680
AZ Sun: Cotton Center	46,200	18,839
AZ Sun: Paloma	42,800	17,453
AZ Sun: Hyder	39,300	16,026
APS PV	10,700	4,363
TOTAL ANNUAL RENEWABLE GENERATION	1,180,000	481,179
TOTAL APS CO2 REDUCTION FROM EE AND RENEWABLE GENERATION		670,306

¹ Current values for Energy Efficiency are from projections of annual megawatt hour ("MWh") savings included in APS's 2012 Demand Side Management ("DSM") Implementation Plan. Actual MWh values for 2012 will be available in APS's DSM Annual Progress Report to be filed with the Commission March 1, 2013.

² Current values for Renewable Generation are estimates. Actual MWh values for 2012 will be available in APS's 2012 Renewable Energy Standard Compliance report to be filed with the Commission by April 1, 2013. Values for customer sited renewable distributed energy are not included in this report.

³ Metric tons of CO2 reduction are calculated based on APS 2012 assumption for natural gas combined cycle generation carbon dioxide emissions of 899 pounds (0.407779 metric tons) per MWh.